

**COTTONWOOD HEIGHTS (A CITY), UTAH
INDEPENDENT AUDITOR'S REPORT
BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2009**



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**COTTONWOOD HEIGHTS, UTAH
YEAR ENDED JUNE 30, 2009**

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LARSON & ROSENBERGER LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

December 28, 2009

Honorable Mayor
Members of the City Council
Cottonwood Heights, Utah

Mayor and Council Members:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cottonwood Heights (the City), as of and for the period ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Cottonwood Heights, as of June 30, 2009, and the respective changes in financial position, where applicable, and the budgetary comparison for the general fund thereof for the period then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 14 are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. Supplementary information that is not a required part of the basic financial statements is found on pages 44 through 46. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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In accordance with Government Auditing Standards, we have also issued a report dated December 28, 2009, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script that reads "Larson & Rosenberger, LLP".

Larson & Rosenberger, LLP
Certified Public Accountants

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

As management of Cottonwood Heights (the City), we offer readers this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2009. It is also intended to assist the reader in focusing on significant financial issues. These include identifying changes in the City's financial position (its ability to address the next and subsequent year's challenges), identifying any material deviations from the approved budget, and identifying individual fund issues or concerns. We encourage readers to consider the information presented here in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- Total net assets of Cottonwood Heights declined by \$373,062 to \$55,695,701. Although it is less than a 1% decline, it represents the first year since incorporation there has been a decline in total net assets. **Total assets actually increased by approximately \$272,000**, but liabilities increased by \$645,000 resulting in the net asset reduction of \$373,062. The major factor contributing to the increase in liabilities was the future lease payment on the new fleet of police vehicles totaling \$826,985
- Total net assets consist of: \$45,831,420 in capital assets net of related debt, Reserved Accounts - \$222,737 in Class "C" Road Funds and Unreserved Accounts - \$9,641,544.
- The City's fund balances as shown on the Governmental Funds statement include \$1,630,198 in General Funds (Reserved Funds - \$222,737 in Class "C" Road Funds and Unreserved Funds - \$1,407,461) and \$8,260,844 unreserved in Capital Project Funds.
- The General Fund (the primary operating fund) had an increase over the prior year in its fund balance of \$194,488 (\$1,213 less in Class "C" Road funds, \$195,703 more in Unreserved General Fund). The Capital Projects Fund had a decrease in its fund balance of \$596,121.
- The Proprietary Fund (Employee Benefit Fund) is an internal service fund that allows the Governmental Funds to be charged for employee paid time off (PTO) in the year the benefit is earned. Charges made by the internal service fund to the Governmental Funds will accumulate cash on hand to pay the employee vested PTO when it becomes payable at termination. Setting these funds in reserve to cover the future potential payout of vested PTO will ensure the City's ability to meet this future liability with minimal or no impact on future budgets.
- Cottonwood Heights has been recognized by the Government Finance Officers Association for Distinguished Budget Presentation for the 2008, 2009 and 2010 fiscal years ending on June 30.
- Consistent with the decision made last fiscal year, Cottonwood Heights launched a police department on September 1, 2008 in lieu of contracting with the Salt Lake County Sheriff for law enforcement services. The new police department is comprised of 39 employees including the following:
 - Chief and Assistant Chief
 - Five sergeants

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
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- Three Corporals
- Five and one half Detectives
- One Crime Scene Investigator (CSI)
- Eighteen Patrol Officers
- Three and one half Civilians
- One Victims Advocate
- The City Police department has developed a highly skilled and trained investigative division that has successfully cleared over 90% of all aggravated felony crimes occurring with the City including but not limited to homicide, aggravated rape, home invasion and bank robberies. Two members of the department, Officers Corbett Ford and Dan Bartlett, received national recognition for their work by International Footprinters Organization.
- The Police have established a state of the art traffic accident specialist program with recognized experts in the field of accident reconstruction. This three member team has successfully brought to justice and obtained convictions on two alcohol related auto-homicide cases. They have received accolades from the prosecutors and are now highly sought as consultants by civil attorneys.
- Police call response times for priority one calls has improved over 34 percent since development of the City Police department to currently 4.5 minutes.
- The final feasibility study estimated that the cost for start up and first year operations of the new Police Department would be \$5,860,000. Actual costs exceeded that amount by \$74,548 or 1.3 percent. The main reason for exceeding the estimate was the addition of two more officers. Excluding these additions, the actual cost would have been less than projected by the feasibility study.
- In addition to numerous street and sidewalk improvement projects, the city completed 975,663 square feet of road improvement projects, including overlays, chip seals and slurries. The City received \$1.0 million in state funding for the Fort Union Boulevard level course re-construction that will occur in the 2009-10 fiscal year budget.
- The City has made significant progress in the development and construction of the Big Cottonwood Canyon Trail. Twenty eight percent of the trail has been completed as of Fiscal Year 2009, and an additional thirty one percent is planned to be complete in Fiscal Year 2010.
- During Fiscal Year 2009 Salt Lake County and Cottonwood Heights jointly worked to acquire 5.67 acres of property to develop the Prospector Ridge Trailhead. \$175,000 was contributed by the city and Salt Lake County contributed \$331,135 from its' Open Space Bond and \$3,048,710 from their Park Bond for land acquisition. The improvements for the upper portion of this trailhead were substantially completed in FY 2010.
- In FY 2007, Cottonwood Heights participated with Draper City, Sandy City, Midvale City, and the town of Alta in creating the new Canyons School District. In FY 2007, 2008 and 2009 the City's portion of expenditures related to this effort were \$27,446, \$31,169 and \$11,661 respectively. The City has since been reimbursed all that was allowed by state statute, by the new school district in FY 2010. The reimbursement was set up as FY 2009 receivable.

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

- The City has continued to promote successful community events enjoyed by residents of the City, including Butlerville Days, Easter Egg Hunt, Relay for Life, District Town Meetings, and various events in conjunction with the Cottonwood Heights Recreation Center.
- The City has also increased its presence in Valley Journal Newsletter to improve communications with the citizens of the City.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Cottonwood Heights' basic financial statements which consist of four components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements and 4) supplementary information.

Government-wide financial statements (defined)

The government-wide financial statements are designed to provide readers with a broad overview of Cottonwood Heights' finances, in a manner similar to a private-sector business.

- *The statement of net assets* presents information on all of Cottonwood Heights' assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Cottonwood Heights is improving or deteriorating. However, the reader will also need to consider other non-financial factors.
- *The statement of activities* presents information showing how the City's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The government-wide financial statements distinguish functions of Cottonwood Heights that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). *Cottonwood Heights currently has no Business-type Activities.*

Fund financial statements (defined)

A statement of revenue, expenditures and changes in fund balance by fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Cottonwood Heights also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of a city are divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Cottonwood Heights currently has two major governmental funds (as determined by generally accepted accounting principles), the General Fund and the Capital Projects Fund and one

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

proprietary fund, Employee Benefit Fund (an internal service fund). *Cottonwood Heights currently has no Fiduciary Funds.*

- ***Governmental funds*** – These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on how money flows into and out of these funds and the balances left at year-end that are available for future appropriation. These funds are reported using a modified accrual accounting method, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps users determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation included with the fund financial statements.
- ***Proprietary funds*** – Cottonwood Heights maintains one proprietary fund, the Employee Benefit Fund (an internal service fund). This fund is an accounting device used to accumulate funding for and allocate costs for accrued paid time off (PTO) among the City's various functions. This fund provides the resources needed to pay out accrued vested PTO benefits without negatively impacting budgets in the year a payout occurs.

Notes to the financial statements

The notes provide additional information that is essential to an understanding of the information provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-43 of this report.

CITY'S GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Cottonwood Heights, assets exceed liabilities by \$55,695,701 as of June 30, 2009. Total net assets of Cottonwood Heights declined by \$373,062. Although it is less than a 1% decline, it represents the first year since incorporation there has been a decline in net assets. Total assets actually increased by approximately \$272,000, but liabilities increased by \$645,000 resulting in the net asset reduction of \$373,062. The major factor contributing to the increase in liabilities in the government-wide financials is booking the future lease payment of \$826,895 on the new fleet of police vehicles put into service during fiscal year 2009. The City's government-wide financial statements can be found on pages 16-17 of this report. This is the first year in which the City's net assets have decreased.

Cottonwood Heights was incorporated on January 14, 2005 and completed a four and one half fiscal years of activity on June 30, 2009. The last four years are the only 12 month periods with which to compare the current financial position and results of activities.

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
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By far the largest portion of Cottonwood Heights' net assets, \$45,831,420, reflects investment in capital assets (e.g., land, roads and infrastructure assets) net of related debt (if any). The City uses these capital assets to provide services to the citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of any related debt, it should be noted that the resources needed to repay any debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate liabilities. Currently, the City has only one capital lease for the purchase of police vehicles in the amount of \$826,985. The future lease payments are booked as a long term debt.

In addition to the net capital assets mentioned above, the City has restricted and unrestricted assets. The only restricted assets are related to unexpended Class C road funds totaling \$222,737 which must be expended as required maintaining roads and sidewalks. The remaining balance of unrestricted net assets totaling \$9,641,544 may be used to meet the city's ongoing obligations and objectives by fund type. More than 85 percent of unrestricted assets is reflected in the fund balance of the Capital Projects Fund.

**Cottonwood Heights
Net Assets
As of June 30th**

	Governmental Activities				
	2009	2008	2007	2006	2005 (1/2 yr)
Current and other assets	11,515,031	12,125,491	11,592,480	7,925,989	3,137,814
Capital assets	46,658,405	45,776,089	45,037,315	45,516,630	47,482,254
Total assets	58,173,436	57,901,580	56,629,795	53,442,618	50,620,068
Long-term liabilities outstanding	977,413	46,769	2,280,164	2,410,976	31,500
Other liabilities	1,500,322	1,786,048	2,053,933	708,547	2,362,166
Total liabilities	2,477,735	1,832,817	4,334,097	3,119,523	2,393,666
Net assets:					
Invested in capital assets, net of related debt	45,831,420	45,776,089	45,027,267	45,496,011	47,450,754
Restricted	222,737	223,950	253,555	183,275	171,627
Unrestricted	9,641,544	10,068,724	7,014,876	4,643,809	604,021
Total net assets	55,695,701	56,068,763	52,295,698	50,323,095	48,226,402

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

Governmental activities analysis

Governmental activities decreased the City's net assets by \$373,062 resulting in total net assets of \$55,695,701.

Significant current year revenues were from:

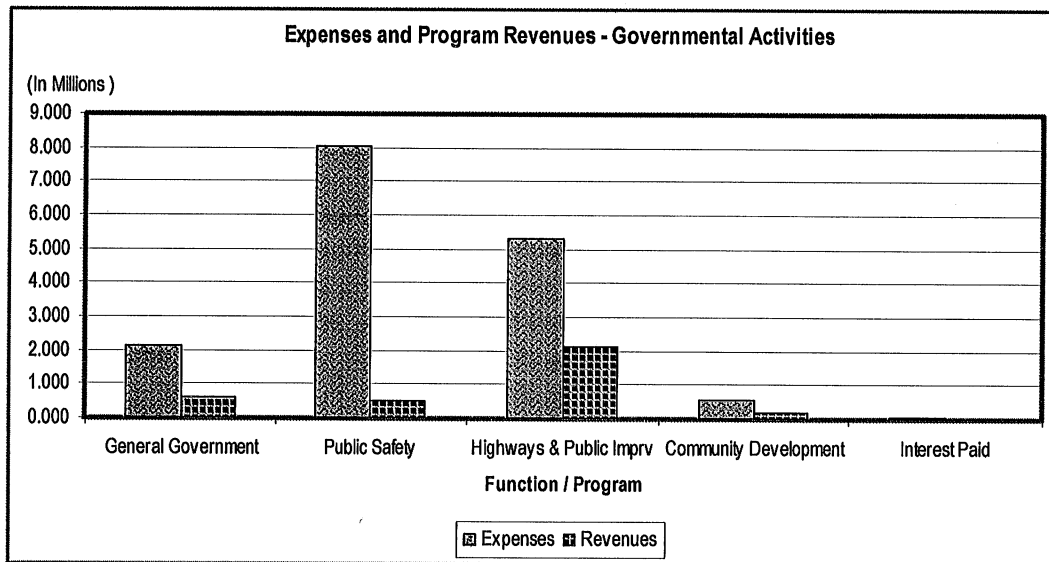
- \$6,914,705 Property Tax revenues (44.1%),
- \$4,847,677 Other Taxes (Local option Sales & Transient Room taxes) (30.9%),
- \$ 321,124 Other Taxes (Franchise tax, Liquor tax) (2.9%),
- \$1,465,430 Operational Grants (Class C road funds, E911 Emergency telephone fee and CDBG funds) (9.3%)
- \$906,778 Charges for Service (Licenses, Permits and Court fines) (5.8%).
- \$1,025,779 Capital Grants for trail & park improvements and additional Impact Fees (6.5%)
- \$187,488 Investment interest earnings (1.2%)

**Cottonwood Heights
Changes in Net Assets**

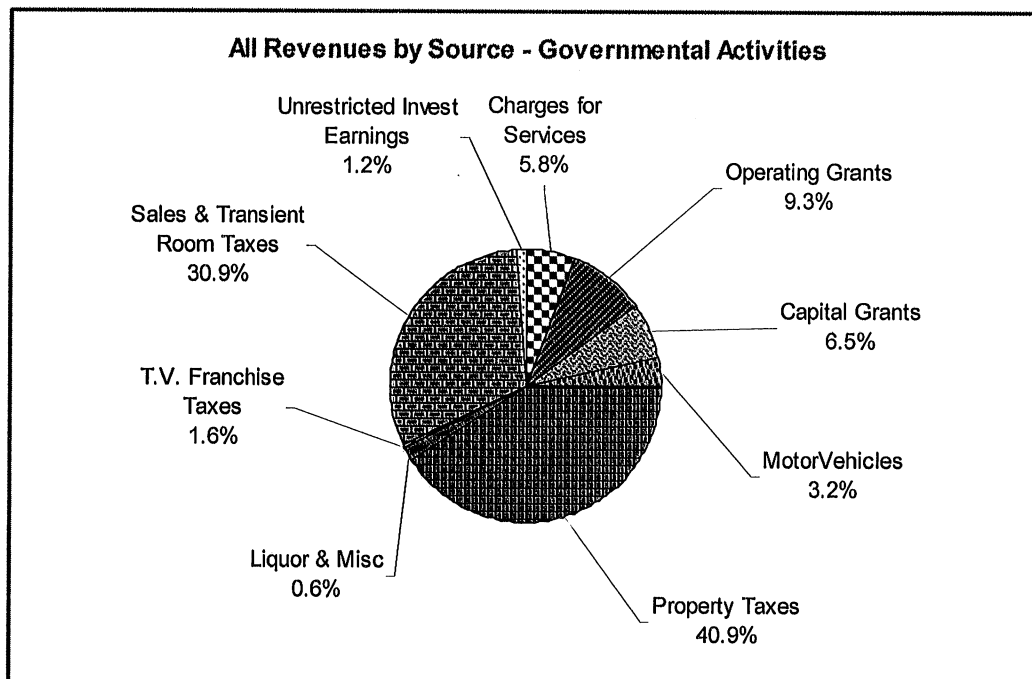
	Governmental Activities				
	FY 2009	FY 2008	FY 2007	FY 2006	FY 2005 (½ Yr)
Revenues:					
Program revenues:					
Charges for services	906,778	1,008,286	933,977	962,497	273,390
Operating grants and contributions	1,465,430	1,475,184	1,362,266	1,289,841	627,685
Capital grants and contributions	1,025,779	941,105	33,579	2,532,080	4,661
Total program revenues	3,397,987	3,424,575	2,329,822	4,784,418	905,736
General revenues:					
Property taxes	6,914,705	6,980,872	6,935,453	2,858,039	874,799
Other taxes	5,131,899	5,689,750	5,812,178	4,958,764	2,087,086
Unrestricted investment earnings	187,488	515,432	456,134	233,637	8,131
Other - Intergovernmental	-	1,500	6,248	500,000	48,379,116
Other - Gain (Loss) on Sale of Assets	-	(736)	-	-	-
Other - Miscellaneous	53,944	4,589	7,503	405	694
Total general revenues	12,288,037	13,191,407	13,217,517	8,550,846	51,349,826
Total revenues	15,686,023	16,615,982	15,547,339	13,335,264	52,255,562
Expenses:					
General government	2,140,589	1,972,270	3,421,036	1,328,701	669,212
Public safety	8,015,001	6,780,298	6,339,016	5,730,383	1,763,029
Highways and public improvements	5,309,932	3,469,794	3,197,851	3,309,743	1,377,478
Community & economic development	566,802	620,300	616,335	821,760	212,593
Interest on long-term debt	26,761	254	498	47,805	7,028
Total expenses	16,148,698	12,842,916	13,574,736	11,238,391	4,029,340
Change in net assets	(373,062)	3,773,066	1,972,603	2,096,873	48,226,222
Net assets - beginning	56,068,763	52,295,698	50,323,095	48,226,222	-
Net assets - ending	55,695,701	56,068,763	52,295,698	50,323,095	48,226,222

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
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The following is a graphic presentation of the City's program revenues and corresponding expenditures. It should be noted that approximately 46 percent of the expenses shown for Highways & Public Improvements is attributable to current period depreciation of the City's infrastructure assets. The revenue for Highway & Public Improvements is primarily from Class C Road Funds. The General Government revenue is from charges for services (business licensing and permits & inspections). Public Safety revenues include \$232,723 in E-911 Emergency telephone fees and \$273,251 in court fines. \$26,761 interest expense on capital leases was accrued, but does not show on the following graphic due to scaling.



Below is a graphic of all revenue sources collected by the City during the fiscal 2009 year.



**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
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CITY'S FUND FINANCIAL STATEMENTS ANALYSIS

As noted earlier, Cottonwood Heights uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements and to track and control financial resources received and expended.

Governmental Funds Analysis

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for appropriation at the end of the fiscal year.

At the end of this fiscal year, Cottonwood Heights' governmental funds reported combined ending fund balances of \$9,891,041 after four and one half years of operation. \$222,737 of the fund balance is *reserved or designated* for a specific purpose. In this case, this includes Class C road funds that must be expended as statutorily required. The remaining balance of \$9,668,304 constitutes *unreserved, undesignated fund balance*, which is available for spending at the City Council's discretion. Of that balance, \$8,260,844 is in the Capital Projects fund and is budgeted to be spent on capital projects.

- The **General Fund** is the chief operating fund of the City. As of June 30, 2009 the General Fund's unreserved fund balance was \$1,407,461, while the total fund balance equaled \$1,630,198. A useful measure of liquidity is to compare the unreserved fund balance and the total fund balance to expenditures (including operating transfers out) for the year. The unreserved fund balance was 9.28 percent of total expenditures and transfers, while the total fund balance equaled 10.75 percent. The fund balance increased from the end of FY 2008 by \$194,488 (\$1,213 less in Class "C" Road funds, \$195,701 more in Unreserved General Fund) after a transfer of \$1,499,074 to the Capital Projects Fund. The current unreserved general fund balance is 9.73 percent of the total estimated fund revenues for the 2009-2010 fiscal year. The stated goal of the City Council is to require a minimum fund balance of at least 6.0 percent. Currently, this 6.0 percent required minimum has been calculated at \$867,694. The current balance of \$1,407,461 exceeds that objective by \$539,767.
- The other governmental fund is the **Capital Projects Fund**. This fund is specifically used to budget capital improvements. As of June 30, 2009, the fund had an unreserved available fund balance of \$8,260,844. This was a decrease of \$596,121 from the prior year-end. For specific details see supplementary Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Capital Projects Fund on page 46.

The City's basic governmental funds financial statements can be found on pages 18-22 of this report.

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Proprietary Funds Analysis

The focus of the City's only proprietary fund, **Employee Benefit Fund (an internal service fund)**, is to accumulate funds to pay employees for unused, but accrued paid time off (PTO) at the time of separation. This fund is designed to minimize or altogether eliminate any budgetary impact in a subsequent year when a payout is required. At the end of each fiscal year, a liability estimate is made based on individual accruals and current wage rate of each employee. The total liability is then compared with the current liability balance in the Employee Benefit Fund (an internal service fund) and any additional liability is charged to the current year's expenditures in the governmental funds.

The City's basic proprietary fund financial statements can be found on pages 23-25 of this report.

GENERAL FUND 2009 BUDGETARY HIGHLIGHTS

During the year there was an overall decrease of \$433,558 in budgeted appropriations for the General Fund. Amended departmental budgeted expenditures increased by \$716,336, but this was offset by a decrease in the budgeted transfer from the General Fund to Capital Projects of \$1,149,894 - resulting in the \$433,558 overall decrease in budgeted appropriations.

Although budgeted revenues during the year decreased by \$1,266,508, the final FY2008 fund balances available for the FY 2009 Budget adjustments included Class C Roads funds of \$223,950 and unrestricted funds of \$275,593, the final FY 2009 budget anticipated fully spending all fund balance except the required six percent restricted reserve.

The changes in the FY 2009 budget in individual departmental appropriations were as follows:

- \$177,859 increase in General Government
- \$523,839 increase in Public Safety
- \$ 83,591 increase in Highways and Public Improvements
- \$ 68,953 **decrease** in Community and Economic Development
- \$1,149,894 **decrease** in transfers to Capital Projects Fund

Actual expenditures during this fiscal year in the General Fund departments were equal to or less than the amended budget appropriations in all departments.

The City's Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund can be found on page 22 of this report.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

Cottonwood Heights' investment in capital assets for its governmental activities as of June 30, 2009 amounted to \$45,831,420 (net of related debt). This investment in capital assets includes

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
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land right-of-way, roads, bridges, parkways (improvements other than buildings), storm drains, land (not road right-of-ways), buildings, equipment and vehicles, net of capital leases.

**Cottonwood Heights' Capital Assets
(net of related debt)**

	Governmental Activities	
	FY 2009	FY 2008
Equipment	\$ 1,145,718	\$ 646,360
Vehicles	1,170,585	134,656
Buildings	-	-
Land (non-infrastructure)	530,492	530,492
Infrastructure - Roads	17,152,326	18,976,481
Infrastructure - Bridges	711,847	744,160
Infrastructure - Parkways	2,402,093	1,507,910
Infrastructure - Storm Drains	828,298	549,430
Infrastructure - Land	22,717,047	22,686,600
Total (net of depreciation)	46,658,405	45,776,089
Less Capital Leases	(826,985)	-
Total Capital Assets (net of related debt)	45,831,420	45,776,089

Capital asset additions during this fiscal year included the following for a total increase of \$3,769,550 with other reduction adjustments of \$120,640 in assets:

\$ 713,491 in new equipment asset purchases.

This amount includes computer & software purchases, police equipment and other general equipment.

\$1,188,633 in vehicle purchases include police department, public works.

\$ 30,447 in road right of way dedicated to the City.

\$ 449,415 in infrastructure from road overlay and construction projects, with minor reduction for WIP from the prior year that was actually private infrastructure

\$ 972,197 in parkway beautification and improvements. This amount includes crosswalks, cross-gutters, street lighting, work on Big Cottonwood Trail, with minor reductions for WIP from prior year that was actually private infrastructure.

\$ 294,726 in storm drain improvements.

Additional information on assets of the City can be found in the Notes 3D Capital Assets on pages 38-39 of this report.

Long-term debt

As of June 30, 2009 the City had \$950,652 in governmental long-term debt. \$123,667 of this amount is a long-term liability in the Employee Benefit Fund (an internal service fund) for employee paid time off accruals and is fully funded through cash on hand in the fund.

\$826,985 of the long term debt is a new capital lease to help fund the initial purchase of police vehicles. The City did not have a debt service payment in FY 2009. The first debt service payment on this capital lease occurred September, 2009 in the amount of \$194,200 for principal

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and interest. The balance of the Capital Lease for the police vehicles is due in the subsequent fiscal years.

Additional information on the outstanding debt obligations of the City can be found in the Notes 3.F. Long-Term Debt on pages 39-40 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND TAX RATE

- Cottonwood Heights' adopted property tax rate for the 2009-10 budget year is .002399. The locally assessed valuation in Cottonwood Heights is estimated at \$2,672,987,911 with nominal new growth. The adopted tax rate should yield approximately \$6,412,498 in 2009 property tax revenue for the coming 2010 fiscal year.
- Sales tax collections in the State of Utah have weakened and continue to affect the City's budget in fiscal year 2010. The original budgeted amount of Sales taxes for fiscal year 2010 is \$4,600,000, and this has subsequently been reduced to \$4,033,000. This compares to total sales tax revenue from prior years of \$4,819,775 in fiscal 2009, \$5,378,470 in fiscal 2008, and \$5,538,612 in fiscal 2007.
- Class C Road Funds have not yet stabilized, and we are predicting a reduction in Class C budgeted revenue of \$258,000.
- The 2009-10 budget has been constructed with a focus on efficient and effective use of the limited resources available. No new taxes have been proposed to fund City operations and General Fund revenues are projected to remain flat or decline.
- Capital improvement expenditures were originally budgeted at \$2,552,500 in the 2009-10 fiscal budget in addition to a transfer of fund balance of \$5,778,310 to a reserve for City Center & Parks. With the addition of newly projected grant revenues of \$520,800 and an additional transfer of fund balance from FY 2009 of \$2,015,531 the amended budget for capital project expenditures has been increased from \$2,552,500 to \$5,128,714.
 - Projects are defined by the Capital Facilities Plan and the priority of projects determined by the City Council.
 - The ending fund balance in the Capital Projects Fund from the FY 2009 is \$8,260,844, inclusive of \$2,015,531 carried forward for unfinished projects
 - In FY 2009, \$1,375,000 was to be funded by State and Local grants to facilitate improvements of the Big Cottonwood Canyon Trail and Fort Union Blvd reconstruction. Of that \$1,375,000, a total of \$1,000,000 was received in fiscal year 2009 and all of this has been carried over into fiscal year 2010. The balance of \$375,000 is available to Cottonwood Heights as expenditures are made in the future.
 - An additional Energy Efficiency Conservation Block Grant of \$145,800 was also awarded to the City for FY 2010.
- During the FY 2010 legislative session, the Utah State Retirement Systems defined benefit plan is being reviewed for potential significant changes due to recent

**COTTONWOOD HEIGHTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2009**

significant market losses. This may become a significant issue for the Fiscal Year 2011 budget.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Cottonwood Heights' finances. Questions concerning any information provided in this report or a request for additional financial information should be addressed to: Cottonwood Heights, attn: David Muir, Finance Director, 1265 Fort Union Blvd, #250, Cottonwood Heights, UT 84047.

BASIC FINANCIAL STATEMENTS

Cottonwood Heights, Utah
Statement of Net Assets
June 30, 2009

	Primary Government
	Governmental
	Activities
<hr/>	
ASSETS	
Cash and cash equivalents	\$10,091,433
Receivables (net of allowances)	1,179,614
Prepays	21,247
Restricted Cash and cash equivalents	222,737
Capital assets not being depreciated:	
Land	23,247,539
Capital assets (net of accumulated depreciation):	
Improvements other than buildings	1,145,718
Vehicles	1,170,585
Infrastructure	21,094,563
	<hr/>
Total assets	58,173,436
	<hr/>
LIABILITIES	
Accounts payable and other current liabilities	793,174
Accrued liabilities	79,266
Deferred revenue	627,882
Non-current liabilities:	
Due within one year	188,848
Due in more than one year	788,565
	<hr/>
Total liabilities	2,477,735
	<hr/>
NET ASSETS	
Invested in capital assets, net of related debt	45,831,420
Restricted for:	
Class C Roads	222,737
Unrestricted	9,641,544
	<hr/>
Total net assets	\$55,695,701
	<hr/>

The notes to the financial statements are an integral part of this statement.

Cottonwood Heights, Utah

Statement of Activities

For the Year Ended June 30, 2009

Function / Programs	Program Revenues				Net (Expenses)	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Assets	Primary Governmental Activities Total
Primary Government:						
Governmental activities:						
General government	\$ 2,140,589	\$ 469,151	\$ 132,849	\$ -		(1,538,588)
Public safety	8,015,001	273,251	232,723			(7,509,028)
Highways and public improvements	5,309,932		1,099,858	1,025,779		(3,184,295)
Community and economic development	566,802	164,376				(402,426)
Interest on long-term debt	26,761					(26,761)
Total governmental activities	\$ 16,059,085	\$ 906,778	\$ 1,465,430	\$ 1,025,779		(12,661,098)
General revenues:						
Property Tax						6,408,994
Sales Tax / Transient Room Tax						4,847,677
Motor Vehicle Fee-In-Lieu						505,711
Franchise Tax						250,660
State Liquor Fund Allotment						33,563
Unrestricted investment earnings						187,488
Miscellaneous						53,944
Total general revenue and transfers						12,288,037
Changes in net assets						(373,062)
Total net assets - beginning						56,068,763
Total net assets - ending						55,695,701

The notes to the financial statements are an integral part of this statement.

Cottonwood Heights, Utah

Balance Sheet Governmental Funds June 30, 2009

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	1,706,922	8,260,844	9,967,766
Accounts receivables (net):	1,179,614		1,179,614
Prepaid expenses	21,247		21,247
Restricted cash and cash equivalents	222,737		222,737
Total assets	3,130,520	8,260,844	11,391,364
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	793,174		793,174
Accrued liabilities	9,256		9,256
Advances from developers	70,011		70,011
Deferred revenue	627,882		627,882
Total liabilities	1,500,322		1,500,322
Fund balances:			
Reserved:			
Class C roads	222,737		222,737
Unreserved, reported in:			
General Fund, required	867,694		867,694
Fund balance, available	539,767	8,260,844	8,800,610
Total fund balances	1,630,198	8,260,844	9,891,041
Total liabilities and fund balances	3,130,520	8,260,844	11,391,364

The notes to the financial statements are an integral part of this statement.

Cottonwood Heights, Utah
Reconciliation of Total Governmental Fund Balances
to Net Assets of Governmental Activities
June 30, 2009

Total fund balances - governmental fund types:	\$ 9,891,041
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources; therefore, they are not reported in the funds. (Net of related Debt)	45,831,420
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Accrued interest on capital leases payable is not due and payable in the current period and therefore are not reported in the funds.	(26,761)
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Net assets of governmental activities	<u>\$ 55,695,701</u>
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The notes to the financial statements are an integral part of this statement.

Cottonwood Heights, Utah
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2009

	General Fund	Capital Projects Fund	Total Governmental Funds
REVENUES			
Taxes:			
Property	6,408,994		6,408,994
Sales	4,819,775		4,819,775
E-911 Emergency Fees	232,723		232,723
Motor Vehicle Fee-in-lieu	505,711		505,711
Franchise - Cable TV	250,660		250,660
Transient Room	27,902		27,902
Licenses and Permits	469,151		469,151
Intergovernmental:			
Federal Grant	55,898		55,898
Homeland Security Grant	10,825		10,825
Justice Assistance Grant	20,580		20,580
Bulletproof Vest Program	11,382		11,382
Crime Victims Assistance Grant	14,711		14,711
State Grants - Transportation (Ft Union)		1,000,000	1,000,000
DUI-OT Grant	16,753		16,753
State Class C Roads	1,099,858		1,099,858
State Liquor Fund Allotment	33,563		33,563
State Humanities Council	2,700		2,700
Charges for Services	164,376		164,376
Fines and Forfeitures	273,251		273,251
Investment Earnings	34,680	152,808	187,488
Miscellaneous	53,944		53,944
Total revenues	14,507,436	1,152,808	15,660,244
EXPENDITURES			
Current:			
General Government	2,130,380		2,130,380
Public Safety	9,558,468		9,558,468
Highways and Public Improvements	1,425,120	3,248,003	4,673,123
Community and Economic Development	552,668		552,668
Total expenditures	13,666,637	3,248,003	16,914,640
Excess (deficiency) of Revenues over (under) Expenditures	840,799	(2,095,195)	(1,254,396)
OTHER FINANCING SOURCES (USES)			
Sources:			
Impact Fees - Current Year Collections	25,779		25,779
Proceeds from Capital Leases	826,985		826,985
Transfers from General Fund		1,499,074	1,499,074
(Uses):			
Transfers to Capital Improvement Fund	(1,499,074)		(1,499,074)
Total Other Financing Sources (Uses)	(646,310)	1,499,074	852,764
Net change in Fund Balances	194,488	(596,121)	(401,633)
Fund Balance - Beginning	1,435,709	8,856,965	10,292,674
Fund Balance - Ending	1,630,198	8,260,844	9,891,041

The notes to the financial statements are an integral part of this statement.

Cottonwood Heights, Utah
Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2009

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds	\$ (401,633)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. <i>This is the amount by which capital outlays exceeded depreciation in the current period.</i>	882,316
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Proceeds from capital leases provide current financial resources to governmental funds by issuing debt which increases long-term liabilities in the Statement of Net Assets. Repayments of capital lease principal are expenditures in the governmental fund, but reduce liabilities in the statement of net assets:	
Proceeds from capital leases	(826,985)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:	
Accrued Interest on capital leases	(26,761)

Change in net assets of governmental activities	\$ (373,062)
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The notes to the financial statements are an integral part of this statement.

Cottonwood Heights, Utah
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2009

Description	Budgeted Adopted Budget	Amounts Final Budget	Fund Actuals (Budgetary Basis) (See Notes)	Variance with Final Budget
REVENUES				
Taxes:				
Property	6,600,000	6,300,000	6,408,994	108,994
Sales	5,200,000	4,600,000	4,819,775	219,775
E-911 Emergency Fees	207,000	204,000	232,723	28,723
Motor Vehicle Fee-in-lieu	500,000	500,000	505,711	5,711
Franchise - Cable TV	251,654	250,000	250,660	660
Transient Room	25,000	25,000	27,902	2,902
Licenses and Permits	625,000	512,000	469,151	(42,849)
Intergovernmental:				
Federal Grant	65,000	70,000	55,898	(14,102)
Homeland Security Grant		80,000	10,825	(69,175)
Justice Assistance Grant		24,174	20,580	(3,594)
Bulletproof Vest Program		11,382	11,382	
Crime Victims Assistance Grant		15,080	14,711	(369)
DUI-OT Grant		12,000	16,753	4,753
State Class C Roads	1,271,561	1,150,000	1,099,858	(50,142)
State Liquor Fund Allotment	40,000	33,563	33,563	0
State Humanities Council		3,000	2,700	(300)
Charges for Services	118,000	50,150	164,376	114,226
Fines and Forfeitures	282,790	270,884	273,251	2,367
Investment Earnings	250,000	25,000	34,680	9,680
Miscellaneous		33,264	53,944	20,680
Total revenues	15,436,005	14,169,497	14,507,436	337,939
EXPENDITURES				
Current:				
General Government	2,202,270	2,380,129	2,130,380	(249,749)
Public Safety	9,176,311	9,700,150	9,558,468	(141,682)
Highways and Public Improvements	1,612,756	1,696,347	1,425,120	(271,227)
Community and Economic Development	624,871	555,918	552,668	(3,250)
Total expenditures	13,616,208	14,332,544	13,666,637	(665,907)
Excess (deficiency) of Revenues over (under) Expenditures	1,819,797	(163,047)	840,799	1,003,846
OTHER FINANCING SOURCES (USES)				
Sources:				
Impact Fees - Current Year Collections	60,000	60,000	25,779	(34,221)
Proceeds from Capital Leases	769,171	826,985	826,985	0
(Uses):				
Transfers to Capital Improvement Fund	(2,648,968)	(1,499,074)	(1,499,074)	
Total Other Financing Sources (Uses)	(1,819,797)	(612,089)	(646,310)	(34,221)
Net change in Fund Balances	0	(775,136)	194,488	969,624
Fund Balance - Beginning	936,166	1,711,302	1,435,709	(275,593)
Fund Balance - Ending	936,166	936,166	1,630,198	694,031

The notes to the financial statements are an integral part of this statement.

Cottonwood Heights, Utah
Statement of Net Assets
Proprietary Fund
For the Year Ended June 30, 2009

	Governmental Activities - Employee Benefit Fund
ASSETS	
Cash and cash equivalents	\$ 123,667
Total assets	<u>123,667</u>
LIABILITIES	
Non-current liabilities	
Accrued PTO benefits payable	123,667
Total liabilities	<u>123,667</u>
NET ASSETS	
Unrestricted	0
Total net assets	<u><u>\$ 0</u></u>

The notes to the financial statements are an integral part of this statement.

Cottonwood Heights, Utah
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended June 30, 2009

	Governmental Activities - Employee Benefit Fund
OPERATING REVENUES	
Charges for interfund services provided	\$ 77,027
Total operating revenues	<u>77,027</u>
OPERATING EXPENSES	
General Government - employee PTO benefits	<u>77,970</u>
Total operating expenses	<u>77,970</u>
Operating income	(943)
NON-OPERATING REVENUES	
Investment Earnings	<u>943</u>
Total non-operating revenues	<u>943</u>
Change in net assets	<u>0</u>
Total net assets - beginning	<u>0</u>
Total net assets - ending	<u><u>\$ 0</u></u>

The notes to the financial statements are an integral part of this statement.

Cottonwood Heights, Utah
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2009

	Governmental Activities - Employee Benefit Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from interfund services provided	\$ 77,027
Net cash provided by operating activities	<u>77,027</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends received	<u>943</u>
Net cash provided by investing activities	<u>943</u>
Net increase in cash and cash equivalents	77,970
Cash and cash equivalents July 1, 2008	<u>46,769</u>
Cash and cash equivalents June 30, 2009	<u><u>\$ 124,739</u></u>
Reconciliation of operating income to net cash provided (used) by operating activities	
Operating Income	(943)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Increase in accrued PTO benefits payable	77,970
Net cash provided by operating activities	<u><u>\$ 77,027</u></u>

The notes to the financial statements are an integral part of this statement.

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Cottonwood Heights city have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The accounting and reporting framework and the more significant accounting policies for the City are discussed in subsequent subsections of this Note.

1.A. FINANCIAL REPORTING ENTITY

Cottonwood Heights (the City), incorporated in 2005, is a political subdivision of the State of Utah. The City is governed by a mayor and an elected board of four council members. The City has determined that there are no separately administered organizations that are controlled by or are dependent upon the City. Control or dependence is determined on the basis of financial interdependence, selection of governing authority, designation of management ability to significantly influence operations and accountability for fiscal matters. Using these criteria no potential component units are included in the City's financial statements.

The accounting policies of Cottonwood Heights, Utah, conform to generally accepted accounting principles applicable to governmental units. The following is a summary of the more significant of such policies.

The City's financial reporting entity comprises the following:

Primary Government:	Cottonwood Heights
Component Units:	None

1.B. BASIS OF PRESENTATION

Government-wide Financial Statements:

Government-wide Statement of Net Assets and Statement of Activities display information on all non-fiduciary activities of the reporting government as a whole. Most effects of any inter-fund activities have been eliminated from these statements.

The government-wide statements for the primary government are separated based on the predominance of the type of revenues that support them. Governmental activities are normally supported by taxes and intergovernmental revenues, while business type activities would receive a significant portion of revenues from fees and charges for services.

The statement of activities is presented to show the extent that program revenues of a given activity support direct expenditures of the function. Direct expenses are those that can clearly be associated with a particular activity or program. Program revenues include: (1) charges to customers or privileges provided by a given function and (2) grants and contributions that are

restricted to meeting operational or capital requirements of a particular function. Other revenue sources that are not reported as program revenues are reported instead as general revenues.

Fund Financial Statements:

Financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. All funds of Cottonwood Heights are considered to be major funds.

The funds of the financial reporting entity are described below:

Governmental Funds:

General Fund

The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Capital Project Fund

The Capital Project Fund is used to account for resources restricted for the acquisition or construction of specific capital projects or items. The reporting entity includes only one Capital Project Fund and it is used to account for the acquisition of capital assets.

Proprietary Funds:

Employee Benefit Fund (an internal service fund)

This fund is used to account for liabilities created from accrued paid time off (PTO) of each City employee. Each year a calculation is made to determine the vested payouts that could occur in future years. This amount is charged to the current year in order to eliminate any large unforeseen payout that could disrupt the individual departmental budgets in subsequent years when a payout occurs.

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

The government-wide Statement of Net Assets and the Statement of Activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. Proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or non-current) associated with their activities are reported. Proprietary fund equity is classified as net assets. The City employee benefit fund (an internal service fund) is reported on this basis.
- c. Fiduciary funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them. The City has no Fiduciary funds at this time.

Basis of Accounting

The government-wide Statement of Net Assets and Statement of Activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City includes in available revenue only revenue that will be collected in cash within one year following the close of the fiscal year, and in the case of property tax revenue, only revenue that will be collected within 60 days of the close of the fiscal year. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond and capital lease principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

1.D. ASSETS, LIABILITIES, AND NET ASSETS (EQUITY)

Deposits and Investments

For the purpose of the Statement of Net Assets, "cash, including time deposits" includes all demand, savings accounts, and certificates of deposits of the City. For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are carried at fair value. Fair value is based on quoted market price. Additional cash and investment disclosures are presented in Notes 2.B. and 3.A.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (non-current portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 3.G. for details of interfund transactions, including receivables and payables at year-end. The City has no interfund receivables or payables.

Receivables and Payables

In the government-wide statements and the fund financial statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include sales tax, franchise tax, property tax, court fines and road cut permits. Interest and investment earnings are recorded when earned and considered both measurable and available.

Payables are composed of contract payments for public works, permitting and inspections, engineering and the city attorney.

Capital Assets

The accounting treatment for property, plant, and equipment depends on whether the assets are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements assets are accounted for as capital assets. All assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the infrastructure assets transferred from Salt Lake County during the period ending June 30, 2005. The City has chosen to capitalize assets costing \$10,000 or more.

Depreciation of all exhaustible assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Description	Governmental Activities Estimated Lives
Buildings and Improvements	45 years
Machinery and Equipment	5 to 15 years
Vehicles	5 years
Infrastructure – original costs - annual upgrade costs	15-50 years (Must increase remaining life by a minimum of 33%. Upgrade costs amortized over new remaining life.)

Fund Financial Statements

In the fund financial statements, assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Restricted Assets

Restricted assets consist of various cash balances that are restricted as to their use. Certain cash balances are restricted by provisions of State Law. Class C Road revenue not spent is restricted in the general fund to be used for future roadwork. The City may also have certain impact fees that are restricted from time to time.

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental resources is reported as a liability in the government-wide statements.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures.

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused PTO benefits. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. There is no recorded liability for compensated absences in the governmental funds because the Employee Benefit Fund (an internal service fund) has been paid for the incurred compensated absence expenditures.

Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt—Consists of capital assets net of accumulated depreciation and related debt.
- b. Restricted net assets—Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets—All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated (required) and undesignated (available). See Note 3.H. for additional disclosures.

1.E. REVENUES, EXPENDITURES, AND EXPENSES

Revenue

Property taxes, franchise taxes, licenses, shared revenue, and interest are susceptible to accrual. Sales taxes collected and held by the state at year end on behalf of the City are also recognized as revenue. Other receipts and taxes become measurable and available when cash is received by the City and are recognized as revenue at that time.

Entitlements are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Expenditures/Expenses

In the government-wide financial statements, expenditures are classified by function for governmental activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds—By Character:

Current (further classified by function and object)

Debt Service

Capital Outlay

Intergovernmental

In the fund financial statements, governmental funds report expenditures of financial resources.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

By its nature as a local government unit, the City is subject to various federal, state, and local laws and contractual obligations. An analysis of the City's compliance with significant laws and regulations and demonstration of its stewardship over City resources follows.

2.A. FUND ACCOUNTING REQUIREMENTS

The City complies with all state and local laws and regulations requiring the use of funds separate from the General Fund. The legally required separate funds used by the City include the following:

<u>Fund</u>	<u>Required By</u>
None	

2.B. CASH DEPOSITS AND INVESTMENTS

Deposits and investments for Cottonwood Heights are governed by the Utah Money Management Act (*Utah Code Annotated*, Title 51, Chapter 7, "the Act") and by rules of the Utah Money Management Council ("the Council"). Following are discussions of Cottonwood Heights' exposure to various risks related to its cash management activities.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, Cottonwood Heights' deposits may not be recovered. The City's policy for managing custodial credit risk is to adhere to the Money Management Act. The Act requires all deposits of Cottonwood Heights to be in a qualified depository, defined as any financial institution whose deposits are insured by an agency of the federal government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the

Utah Money Management Council. The City normally processes payables on the 15th and 30th and payroll is paid on a biweekly basis.

Credit Risk

Credit risk is the risk that the counterparty to an investment will not fulfill its obligations. The City's policy for limiting the credit risk of investments is to comply with the Utah Money Management Act.

Cottonwood Heights is authorized to invest in the Utah Public Treasurer's Investment Fund (PTIF), an external pooled investment fund managed by the Utah State Treasurer and subject to the Act and Council requirements. The PTIF is not registered with the SEC as an investment company, and deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah. The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses, net of administration fees, of the PTIF are allocated based upon the participants' average daily balances. A copy of the Public Treasurers Investment Fund is available for viewing on the Utah State Treasurer's website at <http://www.treasurer.state.ut.us>.

As of June 30, 2009, the City had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in years)			
		Less than 1	1 to 5	6 to 10	More than 10
State of Utah PTIF	\$ 10,213,176	\$ 10,213,176	\$ -	\$ -	\$ -
Total	\$ 10,213,176	\$ 10,213,176	\$ -	\$ -	\$ -

Investment Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Cottonwood Heights manages its exposure to declines in fair value by investment only in the PTIF and by adhering to the Utah Money Management Act.

2.C. REVENUE RESTRICTIONS

The City has various restrictions placed over certain revenue from state sources. The primary restricted revenue sources include:

Revenue Source
B & C Road Funds

Legal Restrictions of Use
Eligible B & C Roads

For the period ended June 30, 2009, the City complied, in all material respects, with these revenue restrictions.

2.D. DEBT RESTRICTIONS AND COVENANTS

General Obligation Debt

No long-term general obligation debt shall be created by any city unless the proposition to create such debt shall have been submitted to a vote of qualified electors. Cities shall not contract for debt in an amount exceeding four percent of the fair market value of taxable property in their jurisdictions. For the period ended June 30, 2009, the City had no outstanding general obligation debt.

Other Long-term Debt

Cities may incur indebtedness for the purpose of supplying such city water, sewer, or electricity when such public works are owned and controlled by the municipality. The additional indebtedness shall not exceed four percent for first and second class cities and eight percent for third class cities of the fair market value of taxable property in their jurisdictions.

2.E. FUND EQUITY RESTRICTIONS

General Fund Balance Restrictions

Utah Code 10-6-116(4) requires that only the “fund balance in excess of 5 percent of total revenues of the general fund may be utilized for budget purposes.” The remaining 5 percent must be maintained as a minimum fund balance. The maximum in the general fund may not exceed 18 percent of the total estimated revenue of the general fund (10-6-116(2)). The City Council has set its’ own standard of maintaining a minimum 6 percent fund balance. Currently the City’s fund balance equals 9.73 percent of total revenues.

2.F. BUDGETARY BASIS OF ACCOUNTING

In the governmental fund statements the accounting basis and the budgetary basis are the same. The Statement (Schedule) of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual presented for the general fund and the capital projects fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

Budgets are legally required for governmental funds. Annual budgets are prepared and adopted by the City Council on or before June 22 for the fiscal year commencing the following July 1, in accordance with Utah State law. The operating budget includes proposed expenditures and proposed sources of financing for such expenditures. Prior to June 22nd a public hearing is conducted to obtain taxpayer input. Budgets are adopted by ordinance in total for each department. Management can move budgeted amounts within a department or decrease appropriations. The City Council can increase appropriations after having a public hearing. During the year ended June 30, 2009 the City Council amended the original budget twice.

Budgets for the Capital Projects Fund are also prepared using the modified accrual basis of accounting and are adopted on an annual basis. Project budgets for the Capital Projects fund are prepared annually and ending balances may be re-appropriated by Council action in the

following year. State law also requires a budget comparison for all funds for which an annual budget is adopted.

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES / ACCOUNTS

The following notes present detailed information to support the amounts reported in the basic financial statements for its various assets, liabilities, equity, revenues, and expenditures/ expenses.

3.A. CASH DEPOSITS AND INVESTMENTS

Below is a reconciliation of the year end balance invested in the PTIF's and other cash and investments presented in the statement of net assets.

Utah State Public Treasurers' Investment Fund balance	\$	10,213,176
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Reconciliation to Government-wide Statement of Net Assets:

Investments	\$	10,213,176
Cash on Hand		3,175
Deposits		97,819
Total	\$	<u>10,314,170</u>

Per Statement of Net Assets:

Unrestricted Cash	\$	10,091,433
Restricted Cash		222,737
Total	\$	<u><u>10,314,170</u></u>

3.B. RESTRICTED ASSETS

The restricted assets as of June 30, 2009, are as follows:

<u>Type of Restricted Asset</u>	<u>Cash/Time Deposits</u>
<i>Governmental Activities:</i>	
Class C Road Funds	\$ 222,737
Total	<u><u>\$ 222,737</u></u>

3.C. ACCOUNTS RECEIVABLE

Accounts receivable of the governmental activities consists principally of fiscal year accruals of sales taxes, property taxes, court fines and road cuts permits receivable.

Receivables detail at June 30, 2009, are as follows:

Delinquent Property Taxes Receivable	\$	205,452
Invoiced Receivables - Services		8,787
Prior Fiscal Revenues - Sales & Transient Room / 911 Fees		801,482
Prior Fiscal Revenue - Franchise Fees		63,720
Prior Fiscal Revenues - Property Taxes		58,259
Miscellaneous		41,914
Allowance for Doubtful Accounts		-
Net Accounts Receivable	\$	<u>1,179,614</u>

3.D. CAPITAL ASSETS

Capital asset activity for the period ended June 30, 2009, was as follows:

	Balance at July 1, 2008	Additions	Disposals / Misc Adj	Balance at June 30, 2009
Governmental Activities:				
Equipment	\$ 771,234	\$ 713,491	\$ -	\$ 1,484,724
Vehicles	178,491	1,188,633	-	1,367,124
Buildings	-	-	-	-
Land (non-infrastructure)	530,492	-	-	530,492
Infrastructure - Roads	26,572,179	466,586	(17,171)	27,021,594
Infrastructure - Bridges	856,584	-	-	856,584
Infrastructure - Parkways	1,558,222	1,075,666	(103,469)	2,530,419
Infrastructure - Storm Drains	566,308	294,726	-	861,033
Land related Infrastructure	22,686,600	30,447	-	22,717,047
Totals at historical cost	<u>53,720,109</u>	<u>3,769,549</u>	<u>(120,640)</u>	<u>57,369,018</u>
Less Accum. Depreciation				
Equipment	(125,073)	(213,933)	-	(339,006)
Vehicles	(43,635)	(152,904)	-	(196,539)
Buildings	-	-	-	-
Infrastructure - Roads	(7,595,698)	(2,273,571)	-	(9,869,269)
Infrastructure - Bridges	(112,424)	(32,313)	-	(144,737)
Infrastructure - Parkways	(50,312)	(78,014)	-	(128,326)
Infrastructure - Storm Drains	<u>(16,878)</u>	<u>(15,858)</u>	<u>-</u>	<u>(32,736)</u>
Total Accum. Depreciation	<u>(7,944,020)</u>	<u>(2,766,593)</u>	<u>-</u>	<u>(10,710,613)</u>
Governmental Activities capital assets, net	<u>\$ 45,776,089</u>	<u>\$ 1,002,956</u>	<u>\$ (120,640)</u>	<u>\$ 46,658,405</u>

Depreciation and Miscellaneous Adjustment expense was charged to governmental activities as follows:

Governmental Activities:

General Government	\$ 67,491
Public Safety	256,442
Highways & Public Improvements	2,428,526
Community Planning	<u>14,134</u>
Total depreciation expense	<u>\$ 2,766,593</u>

3.E. ACCOUNTS PAYABLE

Payables in the general fund are composed of contract payments for public works, permitting and inspections, engineering and the city attorney.

3.F. LONG-TERM DEBT

The reporting entity's long-term debt consists of capital leases and accrued employee benefits to be repaid from governmental activities.

As of June 30, 2009, the City had long-term debt payable from general fund resources consisting of the following:

The City has entered into a lease agreement as lessee for the purchase of Police vehicles. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of all future lease payments as of the inception date.

Capital Leases Payable:

Wells Fargo - Police Vehicles	
3.83%, (09/02/08 original amount \$826,985)	<u>\$ 826,985</u>
	<u>\$ 826,985</u>

As of June 30, 2009 the City had proprietary fund long-term debt payable as follows

Employee Benefit Fund (an Internal Service Fund):

Paid Time Off - Future PTO Liability	<u>\$ 123,667</u>
Total proprietary fund debt	<u>123,667</u>
Total governmental activity debt	<u><u>\$ 950,652</u></u>

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the period ended June 30, 2009

Type of Debt	Balance	Additions	Deductions	Balance
	July 1, 2008			June 30, 2009
Capital leases	\$ -	\$ 826,985	\$ -	\$ 826,985
Employee Benefit Fund - PTO	46,769	77,970	(1,072)	123,667
Total Long Term Debt	<u>\$ 46,769</u>	<u>\$ 904,955</u>	<u>\$ (1,072)</u>	<u>\$ 950,652</u>

Annual Debt Service Requirements

The annual debt service requirements to maturity for governmental long-term debt principal and interest as of June 30, 2009, are as follows:

Governmental Activities Capital Leases				
Year Ending June 30	Due Date	Interest	Principle	Total
2009		\$ -	\$ -	\$ -
2010	9/2/2009	32,113.42	162,086.58	194,200.00
2011	9/2/2010	25,008.84	664,898.12	689,906.96
Thereafter				-
Total Commitment		<u>\$57,122.26</u>	<u>\$826,984.70</u>	884,106.96
Less interest portion				<u>(57,122.26)</u>
Net capital leases				<u>\$ 826,984.70</u>

3.G. INTERFUND TRANSACTIONS AND BALANCES***Operating Transfers***

	Transfer Out	Transfer In
General Fund	\$ 1,499,074	
Capital Projects Fund		\$ 1,499,074

3.H. FUND EQUITY

Restricted Fund Equity

	Government Activities
Net Assets	
Invested in Capital Assets, Net of Related Debt	\$ 45,831,420
Restricted for:	
Class "C" Roads	222,737
Unrestricted	9,641,544
Total Net Assets	<u>\$ 55,695,701</u>

NOTE 4. OTHER INFORMATION

4A. EMPLOYEE PENSION AND OTHER BENEFIT PLANS

Pension Plans

The City contributes to the Local Governmental Noncontributory Retirement System and Public Safety Retirement System which are cost-sharing, multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). The System provides retirement benefits, annual cost of living allowances, death benefits and refunds to plan members and beneficiaries in accordance with retirement statutes established and amended by the State Legislature.

The System is established and governed by the respective sections of Chapter 49 of the *Utah Code Annotated* 1953 (Chapter 49) as amended, which also establishes the State Retirement Office (Office) for the administration of the Utah Retirement Systems and Plans. Chapter 49 places the Systems, the Office and related plans and programs under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Systems and Plans. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, Utah 84102 or by calling 1-800-365-8772.

The System does allow elected officials and a small percent of appointed officials to be exempt from participation in the Noncontributory System in lieu of other retirement options.

The City is required to contribute to the Local Government Noncontributory System 11.62 percent of the annual salaries of eligible employees. The City is also required to contribute to the Public Safety Noncontributory System 25.49 percent of the annual salaries of eligible employees. The contribution rates are the actuarially determined rates and are approved by the Board as authorized by Chapter 49.

The City contributions to the Local Government Noncontributory System for the periods ending June 30, 2009, 2008 and 2007 were respectively \$93,319, \$73,337 and \$57,861. The City contributions to the Public Safety Noncontributory System for the period end June 30, 2009, 2008 and 2007 were respectively \$313,010, \$1,806 and \$0.00. (While the full 25.49 percent Public Safety portion was expensed in the payroll process during fiscal year 2008, only a regular Noncontributory 11.62 percent was actually remitted to the System, the balance was held in a payable until the City was approved to join the Public Safety Noncontributory System and remitted in FY2009 (\$3,353 not included above.). The contributions were equal to the required contributions for this period.

The City has also elected to be exempt from the Federal Social Security System for all employees that participate in a qualifying retirement plan. In lieu of contributions to the Social Security System the City contributes to various deferred compensation plans explained below.

Deferred Compensation Plans

The assets held by these deferred plans are not available to the City or its general creditors.

401(k) Plan

The City sponsors a deferred compensation plan under Internal Revenue Code Section 401(k) for City employees. The Utah State Retirement Board administers this Plan. Employees who have elected to be exempt from either the regular Noncontributory System or Public Safety System may elect to have their equivalent City contribution contributed into this plan.

Employer contributions that substitute for contributions to the Non-contributory pension for the periods ended June 30, 2009, 2008 and 2007 were \$41,743, \$27,113 and \$15,816 respectively.

Employer contributions that substitute for contributions to the Public Safety Non-Contributory pension for the periods ended June 30, 2009, 2008 and 2007 were \$143,898, \$0.00 and \$0.00 respectively.

Employer contributions that substitute for medical coverage for the periods ended June 30, 2009, 2008 and 2007 were \$29,359, \$15,405 and \$5,916. These contributions are made in lieu of the City paying medical premium costs for employees that elect to forgo medical coverage through the City's group policy. These employees are required to provide proof of alternative insurance coverage.

Employer contributions that substitute for social security contributions for the periods ended June 30, 2009, 2008 and 2007 were \$110,373, \$0.00 and \$0.00.

457 Plans

The City sponsors 457 Deferred Compensation Plans in accordance with Internal Revenue Code Section 457 for all City employees. These plans are administered both by the Utah State Retirement Board and the International City/County Management Association Retirement

Corporation (ICMA-RC). The employees of City may also participate in the 457 deferred compensation plan through payroll deduction.

Utah State Retirement Systems 457 Plan

The amount of the employer contributions that substitute for contributions to the Noncontributory system for the periods ended June 30, 2009, 2008 and 2007 were respectively \$0.00, \$9,343 and \$7,879. As of January 1, 2008, this was clarified and now the City is in compliance and all employer contributions that substitute for contributions to the regular Noncontributory System and Public Safety System must be contributed to the Utah Retirement Systems 401k plan.

Employer contributions that substitute for social security contributions for the periods ended June 30, 2009, 2008 and 2007 were \$45,785, \$19,404 and \$15,838.

International City/County Management Association 457 Plan

Employer contributions that substitute for medical coverage for the periods ended June 30, 2009, 2008 and 2007 were respectively \$0.00, \$710 and \$13,636. As of January 1, 2008 employer contributions in lieu of medical coverage must be contributed to the Utah State Retirement Systems 401k plan due to the fact that any employer paid 457 benefits must be grossed up to include FICA. The City has chosen to simplify and equalize the benefit provided by limiting this benefit to 401k only. These contributions are made in lieu of the City paying medical premium costs for employees that elect to forgo medical coverage through the City's group policy. These employees are required to provide proof of alternative insurance coverage.

Employer contributions that substitute for social security contributions for the periods ended June 30, 2009, 2008 and 2007 in the amount of \$30,264, \$43,863 and \$27,384 respectively.

4.B. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has purchased comprehensive general liability insurance through the Utah Local Governments Trust. The City pays premiums to the Trust for its general insurance coverage, automobile liability, and personal injury protection. The Trust is self-sustaining through member premiums. The City is subject to a minimal deductible for claims.

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SUPPLEMENTARY INFORMATION

Cottonwood Heights, Utah
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Capital Projects Fund
For the Year Ended June 30, 2009

Description	Budgeted Adopted Budget	Amounts Final Budget	Fund Actuals (Budgetary Basis) (See Notes)	Variance with Final Budget
REVENUES				
State Grant		1,375,000	1,000,000	(375,000)
Investment earnings	300,000	140,802	152,808	12,006
Total revenues	300,000	1,515,802	1,152,808	(362,994)
EXPENDITURES				
Current:				
Highways and Public Improvements	9,884,961	5,626,528	3,248,003	(2,378,525)
Debt Service:				
Total expenditures	9,884,961	5,626,528	3,248,003	(2,378,525)
Excess (deficiency) of revenues over (under) expenditures	(9,584,961)	(4,110,726)	(2,095,195)	2,015,531
OTHER FINANCING SOURCES (USES)				
Sources/(Uses):				
Transfers from General Fund	2,648,968	1,499,074	1,499,074	
Total Other Financing Sources (Uses)	2,648,968	1,499,074	1,499,074	
Net change in Fund Balances	(6,935,993)	(2,611,652)	(596,121)	2,015,531
Fund Balance - Beginning	6,935,993	8,856,965	8,856,965	0
Fund Balance - Ending	6,245,313	6,245,313	8,260,844	2,015,531

